RATING REPORT

Aspin Pharma (Private) Limited

REPORT DATE:
November 04, 2024

RATING ANALYST:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A1	A	A1
Rating Outlook/Watch	Stable		Stable	
Rating Action	Reaffirmed		Upgraded	
Rating Date	*November 04, 2024*		*October 04, 2023*	

COMPANY INFORMATION	
Incorporated in 2013	**Group Chairman** Mr. Tariq Moinuddin Khan
Private Limited Company	**CEO:** Mr. Tariq Moinuddin Khan
Key Shareholders (with stake 5% or more):	**External Auditors:** Grant Thorton Anjum Rahman
Aitkenstuart Pakistan (Private) Limited ~100%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Corporates **https://docs.vis.com.pk/docs/CorporateMethodology.pdf**

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: **https://docs.vis.com.pk/docs/VISRatingScales.pdf**

Aspin Pharma (Private) Limited

OVERVIEW OF THE INSTITUTION

Aspin Pharma (Private) Limited (APL) was incorporated in Pakistan as a private limited company in 2013. APL is engaged in manufacture and sale of pharmaceutical products. The Company is a wholly owned subsidiary of Aitkenstuart Pakistan (Private) Limited.

Profile of Chairman & CEO

Mr. Tariq Moinuddin Khan is founder and CEO of OBS Group. He carries over four decades of domestic and international professional experience. Mr. Khan is a graduate of Concordia University Canada and acquired Post Graduate Diploma from McGill University and Certified Public Accountant designation from USA.

RATING RATIONALE

Company Profile

Aspin Pharma (Private) Limited ('APL' or 'the Company') was incorporated as a private limited company on 14 December 2013. The registered office of the Company is situated at Plot No.10 & 25, Sec-20, Korangi Industrial Area, Karachi. The Company is a wholly owned subsidiary of Aitkenstuart Pakistan (Private) Limited (parent company). Principal activities of the Company include import, marketing, export, distribution, wholesale and manufacturing of all kinds of pharmaceuticals.

The Company operates across a diverse range of therapeutic areas, including Gastro, Anthelmintics, Antifungals, and Motility Inhibitors. Its leading products, in terms of revenue, include Motilium, Imodium, Daktarin, Vermox, U-Progest, Sibelium, Stugeron, and Sporonox.

The Company has made a strategic investment in developing a new Hormonal Plant. This facility will be equipped with state-of-the-art technology to enhance production capabilities while ensuring compliance with regulatory standards. In parallel, the Company has implemented the SAP S/4HANA ERP system to streamline its business processes. This system features modules such as Financial Accounting and Controlling (FICO), Sales and Distribution (SD), Materials Management (MM), and Production Planning (PP).

Auditors' Report

The CY23 financial statements were audited by Grant Thornton, which is a QCR rated firm and categorized as 'Category A' on the SBP's Panel of Auditors. The auditor issued an unmodified and unqualified opinion on the financial statements.

Industry Update

The Pakistani pharmaceutical market comprises around 650 companies, with less than 26.0% being multinational. The industry contributes approximately 1.0% to the country's GDP and grew by 15.0% over the past year, reaching an estimated $3.0 bn. Local companies dominate the market with a 74.0% share, while multinationals hold the remaining 26.0%. The top 25 companies account for 74.0% of the market, and the top 50 make up 90.0%. Approximately 11,000 drugs are actively marketed in Pakistan, and sold through licensed pharmacies based on prescriptions. The Drug Regulatory Authority of Pakistan (DRAP) regulates the sector, overseeing medicine registration, manufacturing site approvals, and the setting of Maximum Retail Prices (MRP).

The industry heavily relies on imports, with over 90.0% of raw materials sourced from abroad and only 10.0% of Active Pharmaceutical Ingredients (API) produced locally. This reliance exposes the sector to risks from currency devaluation, inflation, and rising utility costs. Price controls further compress profit margins, leading to the exit of some multinational companies. However, recently in February 2024, the government deregulated drug prices for medicines not listed on the National Essential Medicines List (NEML). Previously, price increases were capped based on the Consumer Price Index (CPI). Now, non-essential medicines can be priced without regulatory caps, potentially benefiting companies with a significant proportion of non-essential drugs.

According to data from IQVIA, a healthcare analytics firm, Pakistan's pharmaceutical industry recorded sales of Rs. 916.0 bn in FY24, reflecting a 24.0% year-on-year (YoY) increase in rupee terms. The fourth quarter of FY24 saw the highest-ever quarterly sales of Rs. 237.0 bn, representing a 25% increase compared to the same period last year (SPLY). Of this growth, approximately 20.0% was driven by price increases, while the remaining 5% resulted from volumetric gains. The price increase was influenced by the one-time price adjustment allowed by DRAP in May 2023 to absorb the significant rupee devaluation.

Sponsor Profile

Aitkenstuart functions as the holding company for OBS Group, which controls five pharmaceutical entities: AGP Limited, Aspin Pharma (Pvt.) Limited, OBS AGP (Pvt.) Limited, OBS Pakistan (Pvt.) Limited, and OBS Pharma (Pvt.) Limited. OBS Group operates within Pakistan's healthcare industry and has established a significant presence both locally and across the region. The Group currently holds the 8th position among all pharmaceutical groups in Pakistan, generating a group turnover that exceeds Rs. 32.0 bn.

The Group's operations are supported by five manufacturing facilities, four located in Karachi and one in Lahore. Of these facilities, four are focused on the production of pharmaceuticals, while one is dedicated exclusively to the production of nutraceuticals.

Key Rating Drivers

Ratings incorporate low business risk of the pharmaceutical sector.

Ratings account for stable demand and low economic sensitivity of the pharmaceutical industry, which ensures steady revenue and profitability. Factors such as population growth, a high incidence of diseases, the emergence of new illnesses, and inadequate hygiene practices are expected to sustain the demand for pharmaceutical products in the country.

However, the pharmaceutical industry in Pakistan faces profitability pressures due to a stringent regulatory framework, including the reliance on the Drug Regulatory Authority of Pakistan (DRAP) for the approval of new products and pricing increases. The Company also encounters challenges in accessing raw materials, with 70.0-80.0% of ingredients sourced from overseas. This results in a significant portion of product costs being denominated in foreign currency, exposing the Company to exchange rate risks.

The recent deregulation of drug prices for Non-Essential Medicines provides companies with the autonomy to independently raise prices, which further supports the business risk profile of the sector.

Stable revenue over the rating horizon, with management projected growth during the ongoing year.

The Company's revenue remained stable in CY23, reported at Rs.4,552 mn (CY22: Rs.4,573 mn, CY21: 4,073 mn). Gross margin slightly improved in CY23 following government one time price increase of 14.0% for essential medicines and 20.0% for non-essential medicines. Therapeutic-area wise, Gastro dominated the sales contribution at 34.2% (CY22: 34.2%), followed by Pediatrics with a proportion of 31.9% (CY22: 35.1%).

During 1HCY24, the Company's revenue was reported to be Rs. 2,841 mn, with management projected revenue of around Rs. 6,000.0 mn by end-CY24. Seasonal trends, particularly external factors such as floods, along with focused strategic shift towards top performing brands contributed to strong product performance. However, despite slightly higher unit prices and increased sales volumes, the gross margin declined in 1HCY24. The Company's strategy has focused on retaining market share and sustaining sales volumes over significant price increases, allowing it to remain competitive.

Despite strong gross margins, operating margins remain under pressure.

The Company undertook a major revamp of its sales force, engaging consultants to implement a comprehensive restructuring. This included a half year extensive training program, and the hiring and elevations of dedicated training managers. This was reflective in higher marketing and selling expenses which rose by ~25%. Finance charges also increased as a result of an elevated monetary policy rate. Despite stable gross profitability in CY23, the bottom line declined by approximately 34%, primarily due to elevated operating expenses. As a result, net margins also decreased.

During 1HCY24, controlled marketing and selling expenses supported the bottom line, resulting in a slight improvement in the net margin. Going forward, maintenance of margins will remain a key driver of the Company's rating.

Cost-saving measures underway to improve margins.

Management anticipates margin improvement through various cost-saving initiatives. One key strategy is to source capsules locally, which will reduce procurement costs. Additionally, the adjustment of pack sizes by increasing the number of tablets per pack, will lower packaging expenses. The ongoing restructuring of the sales force is also expected to contribute positively to overall performance. Moreover, the establishment of the new hormonal plant will enable the company to produce products in-house that are currently outsourced to a toll manufacturer. This shift is projected to further enhance margins by reducing external production costs and improving operational efficiency.

Export oriented strategy with plans for expansion into new regions.

Currently, exports to Afghanistan contribute 3.7% of the company's revenue, a decrease from 6.5% in CY22. Future plans are focused on market penetration through engagement of new distributors, and increasing exports, with a particular emphasis on regions like Africa. Additionally, the establishment of a new hormonal plant is expected to play a role in enhancing export opportunities by enabling the company to enter previously untapped markets and diversify its global presence.

Portfolio concentration risk persists; however, brand value provides comfort.

The Company's portfolio continues to exhibit concentration risk, with the top five brands collectively contributing approximately 80% of total revenue. Among these, Motilium remains the largest revenue contributor, accounting for 36% (CY22: 38%) in CY23. Despite this concentration, the products hold significant positions within their respective market segments, benefiting from high market shares that partially offset the portfolio's concentration risk.

Maintenance of liquidity metrics in line with assigned ratings to remain a key rating driver.

APL's liquidity position further strengthened, as evidenced by improving current ratio. To mitigate the impact of foreign exchange rate fluctuations, APL extended its inventory reserves in CY23, aiming to safeguard against supply chain disruptions and currency volatility leading to an increase in inventory levels of raw material. As a result, the Company experienced an increase in its net cash cycle, driven by a higher number of days to sell inventory in CY23. However, inventory levels decreased during 1HCY24, resulting in a reduction in net cash cycle. Management plans to continue reducing inventory levels, which is expected to improve net cash cycle.

Additionally, the Company experienced a decline in Funds from Operations (FFO), amounting to Rs. 602.5 mn (CY22: Rs. 944.6 mn) in CY23, attributed to lower profitability during the period. Consequently, the FFO to total debt coverage ratio decreased to 0.54x (CY22: 0.78x). The Debt Servicing Coverage Ratio (DSCR) also declined, reaching 1.09x (CY22: 1.37x) in CY23. In 1HCY24, FFO amounted to Rs.

479.9 mn and is projected to exceed Rs. 900 mn by the end of the year. As a result, FFO to total debt coverage improved to 1.95x in 1HCY24, and DSCR significantly strengthened, reaching 2.68x during the same period.

Going forward, maintaining liquidity metrics in line with the assigned ratings will remain a key consideration for the Company's rating.

Sound capitalization and debt profile.

As of Dec'23, the Company equity base grew, representing a five-year compound annual growth rate (CAGR) of 18.3%.

The debt profile as of Dec'23 comprises approximately 60% long-term debt and 40% short-term debt. Long-term financing (inc. current maturity) reduced at end-Dec'23, primarily driven by the redemption of its long-term Sukuk in CY23. However, short-term borrowings increased by end-Dec'23. The Company maintains running finance facilities with a sanctioned limit of up to Rs. 700 mn from commercial banks to meet short-term liquidity needs. The Company's leverage and gearing ratios have slightly improved, standing at 0.63x (CY22: 0.81x) and 0.32x (CY22: 0.42x) in end-CY23, respectively.

As of Jun'24, equity further augmented on account of profit retention. Long-term financing reduced driven by scheduled repayments of its term finance facility, while short-term borrowings also reduced. The Company's leverage and gearing ratios further improved, standing at 0.50x and 0.13x, respectively.

Aspin Pharma (Private) Limited — Appendix I

REGULATORY DISCLOSURES

Name of Rated Entity	Aspin Pharma (Private) Limited
Sector	Pharmaceutical
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
Rating Type: Entity				
04-11-2024	A	A1	Stable	Reaffirmed
04-10-2023	A	A1	Stable	Upgraded
30-09-2022	A	A2	Stable	Reaffirmed
06-10-2021	A	A2	Stable	Reaffirmed
19-10-2020	A	A2	Stable	Reaffirmed
03-10-2019	A	A2	Stable	Reaffirmed
14-12-2018	A	A2	Stable	Reaffirmed
18-10-2017	A	A2	Stable	Initial

Statement by the Rating Team: VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.

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Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1	Mr. Umair Mukhtar	CFO	4th October 2024
2	Mr. Muhammad Faran Adil	Financial Controller	